

Message Text

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SUBJECT: NEW MEXICAN AUTOMOTIVE DECREE

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1. SUMMARY. THE NEW MEXICAN AUTOMOTIVE DECREE PUBLISHED IN DIARIO OFICIAL JUNE 20 REMOVES SOME GOM CONTROLS FROM THE INDUSTRY WHILE SETTING NEW REQUIREMENTS FOR THE USE OF DOMESTIC PARTS. PRICE CONTROLS ON PASSENGER AUTOMOBILES WERE LIFTED. SEVERAL CLAUSES OPENLY DISCRIMINATE AGAINST FOREIGN MAJORITY-OWNED FIRMS. THE AUTOMOTIVE INDUSTRY MUST USE MORE MEXICAN AUTOPARTS WHICH THEMSELVES MUST HAVE HIGHER MEXICAN CONTENT. THESE REQUIREMENTS, COMBINED WITH LIMITED FOREIGN EXCHANGE QUOTAS, WILL RESULT IN DECREASED IMPORTS OF AUTOMOTIVE PARTS, VEHICLES, AND POSSIBLY PRODUCTION EQUIPMENT. THE DECREE IS THE FIRST IN AN EXPECTED SERIES OF GOM MEASURES ON INDUSTRIAL POLICY. END SUMMARY.

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2. THE AUTOMOTIVE INDUSTRY HAS BEEN AWARE THAT THE GOM WAS DRAFTING NEW LEGISLATION TO SUPERSEDE THE 1972 AUTOMOTIVE LAW (SEE REF B). HOWEVER, THE PUBLIC ANNOUNCEMENT ON JUNE 19 AND PUBLICATION THE FOLLOWING DAY IN DIARIO OFICIAL CAUSED SOME PAINFUL SURPRISES. AMIA, THE INDUSTRY ASSOCIATION, PLANS TO MAKE A FORMAL STATEMENT

WITHIN 2 WEEKS TO HELP COMPANIES NEGOTIATE WITH THE GOVERNMENT ON THE REGULATIONS AND ADMINISTRATIVE PROCEDURES. A NEW INTERSECRETARIAL AUTOMOTIVE COMMISSION WILL BE CREATED, CHAIRED BY THE SECRETARIAT OF PATRIMONY AND INDUSTRIAL DEVELOPMENT (SEPAFIN), WHICH WILL DEFINE THE IMPLEMENTING REGULATIONS.

3. ON PRICES, ARTICLE 24 IS AN OPEN-ENDED PROVISION, WHICH THE GOM IS CURRENTLY INTERPRETING AS REMOVING PRICE CONTROLS ON PASSENGER CARS WHILE WARNING THAT ABUSES WILL CAUSE REINSTATEMENT OF CONTROLS. THE CURRENT LACK OF CONSUMER CREDIT AND PURCHASING POWER AS WELL AS A DEGREE OF REAL COMPETITION WILL RESTRAIN PRICE INCREASES DESPITE THE COMPANIES' INCREASED PRODUCTION COSTS. DISTRIBUTORS, FOR THEIR PART, MAY HAVE TO CUT THEIR PROFIT MARGINS NOW AT 18 PERCENT, ACCORDING TO AMIA. MOST DISTRIBUTORS FROZE CAR SALES ON JUNE 20. CHRYSLER DECIDED ON A 13.5 PERCENT INCREASE ON MOST MODELS WHILE OTHER FIRMS ARE STILL STUDING THE QUESTION. AMIA EXPECTS A 12 PERCENT INCREASE WHICH WAS FIGURE REQUESTED BY AUTOMANUFACTURERS FROM SECRETARIAT OF COMMERCE IN MARCH. INCREASES ON LUXURY MODELS ARE EXPECTED TO BE 18 PERCENT. ACCORDING TO SEPAFIN SECRETARY DE OTEYZA, GOM INTENT IS TO FORCE REDUCTION OF MODELS OFFERED IN MEXICO THROUGH MARKET FORCES.

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4. FIRMS THAT ARE MAJORITY MEXICAN-OWNED ARE FAVORED BY THE NEW LAW. ARTICLE 4 WILL GIVE THEM AN ADVANTAGE IN THE COMPUTATION OF ANNUAL FOREIGN EXCHANGE NEEDS, ALTHOUGH THE DEGREE OF ADVANTAGE DEPENDS ON INTERPRETATION TO BE MADE BY THE AUTOMOTIVE COMMISSION. ARTICLE 17 SAYS THAT MEXICAN-OWNED FIRMS ARE THE ONLY ONES WHO CAN BE DIRECTLY AUTHORIZED BY SEPAFIN TO INTRODUCE NEW LINES. ARTICLE 22 AND 32 WOULD PERMIT ONLY MEXICAN-OWNED FIRMS TO MANUFACTURE, IMPORT, AND PLACE DIESEL MOTORS IN TRUCKS AND BUSES; HOWEVER, ALL FIRMS NOW ESTABLISHED INCLUDING U. S. SUBSIDIARIES SUCH AS KENWORTH AND INT'L HARVESTER WOULD QUALIFY, AS THEY ARE AT LEAST 51 PERCENT MEXICAN-OWNED.

5. NATIONAL INTEGRATION REQUIREMENTS WERE PREVIOUSLY 60 PERCENT FOR AUTOMOBILE COMPANIES TAKEN AS A WHOLE WILL NOW BE 50 PERCENT BY SPECIFIC MODEL (ARTICLE 7). SEPAFIN RECOMMENDS THAT NATIONAL INTEGRATION REACH 75 PERCENT BY 1981. REQUIREMENTS FOR TRUCKS AND AGRICULTURAL TRACTORS ARE SET AT 65 PERCENT, RECOMMENDED TO REACH 85 PERCENT, AND FOR TRUCK-TRAILERS

70 PERCENT, RECOMMENDED TO REACH 90 PERCENT. THE NEW REQUIREMENTS WILL BE HARDEST TO ACHIEVE ON TOP-OF-THE-LINE MODELS OF CHRYSLER, FORD AND GM, AS THEY HAVE THE HIGHEST PERCENTAGE OF IMPORTED CONTENT AND IT WOULD BE DIFFICULT TO SOURCE MUCH OF THIS CONTENT IN MEXICO. FOR EXAMPLE, MEXICO DOES NOT PRESENTLY PRODUCE SHEET METAL LARGE ENOUGH FOR USE IN LARGE CARS. ROYALTY PAYMENTS AND OTHER INDIRECT COSTS WILL BE MORE CONTROLLED BY THE COMMISSION.

6. WHEREAS AUTO MANUFACTURERS WERE EXPECTED TO COMPENSATE IN PART FOR THEIR IMPORTS BY THEIR OWN EXPORTS, NOW AT LEAST 50 PERCENT OF THE FOREIGN EXCHANGE NECESSARY MUST BE GENERATED BY EXPORTS OF THE AUTOPARTS INDUSTRY, WITH LIMITED OFFICIAL USE

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THE BALANCE COVERED BY EXPORTS OF UNITS OR PARTS BY THE FIRMS THEMSELVES (ARTICLE 6). THIS APPEARS TO BE THE

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GOM'S WAY OF ENSURING THAT THE MULTINATIONALS BE MORE ACTIVE IN SECURING MARKETS FOR MEXICAN GOODS.

7. OTHER IMPORT TRANSACTIONS WILL BE TIGHTENED UP, AS

THE IMPORTATION OF CARS, TRUCKS, AND NEW AGRICULTURAL TRACTORS INTO THE FREE-TRADE ZONES OR OF SPECIALLY-EQUIPPED VEHICLES INTO THE REST OF MEXICO WILL ONLY BE AUTHORIZED FOR THE AUTOMOTIVE MANUFACTURING FIRMS THEMSELVES AND BE CHARGED AGAINST THEIR FOREIGN EXCHANGE EXPENDITURES, (ARTICLES 23 AND 25). HOWEVER, SALES IN THE FREE-TRADE ZONES WILL BE COUNTED AS EXPORTS (ARTICLE 5). CAR SALES ALONG THE U. S. SIDE OF THE BORDER FOR IMPORT INTO MEXICO CAN BE EXPECTED TO DROP.

8. THE MEXICAN AUTOPARTS INDUSTRY WILL BE THE BIG WINNER BY THE DECREE. THE FOREIGN INVESTMENT LAW OF 1973 REQUIRED NEW FIRMS TO BE 60 PERCENT MEXICAN-OWNED. SEVERAL OLDER FIRMS MAY STILL BE MAJORITY-OWNED BY U. S. INTERESTS (RHEEM, ABEX, OLDENBURG, BUDD, ABBOTT BALL, C AND F FABRICATIONS, FELT PRODUCTS MFG., MAREMONT, KELSEY-HAYES AND SEALED-POWER). IT IS UNCLEAR WHETHER LIMITED OFFICIAL USE

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THE NEW DECREE WILL FORCE MEXICANIZATION OF THESE FIRMS, (ARTICLE 27). FOR PARTS TO BE CONSIDERED MEXICAN FOR NATIONAL INTEGRATION QUOTAS OF THE AUTO MANUFACTURERS THEY MUST NOW HAVE 80 PERCENT NATIONAL CONTENT RATHER THAN 60 PERCENT ACCEPTED PREVIOUSLY (ARTICLE 29). EXPORTS OF PARTS CAN BE USED TO OFFSET IMPORTS IN CALCULATING NATIONAL INTEGRATION. ANY SUCH EXPORTS CANNOT BE DOUBLE-COUNTED FOR THE AUTOMANUFACTURERS' EXPORT REQUIREMENTS (AS DISCUSSED IN PARAGRAPH 6).

9. LIMITATIONS ON COMPONENTS/ PRODUCTION, ALREADY INTRODUCED IN THE 1972 LAW, SEEM MORE FLEXIBLE. SEPAFIN COULD AUTHORIZE AUTO MANUFACTURERS TO PRODUCE PARTS BESIDES THOSE ALREADY APPROVED IF JUDGED TO BENEFIT THE NATIONAL ECONOMY. (ARTICLE 14) MORE THAN ONE TYPE OF MOTOR CAN BE PRODUCED IF PARTIALLY OFFSET BY EXPORTS, (ARTICLE 21).

10. FISCAL INCENTIVES FOR AUTO MANUFACTURING FIRMS COMPLYING WITH THE FOREIGN EXCHANGE AND NATIONAL INTEGRATION REQUIREMENTS ARE SIMILAR TO THOSE OF THE 1972 LAW. THEY INCLUDE A REDUCTION UP TO 100 PERCENT OF DUTIES PAID ON CAPITAL GOODS AND EVEN IMPORTED PARTS (EXCEPT FOR LUXURY OPTIONS) AND A REDUCTION OF UP TO 100 PERCENT ON THE NET FEDERAL SHARE OF THE SPECIAL ASSEMBLY TAX. BOTH THE AUTO AND PARTS INDUSTRIES CAN GET UP TO A 100 PERCENT REBATE ON INDIRECT TAXES PAID ON PRODUCTION OF EXPORTED PARTS AND VEHICLES. (CHAPTER IV). OTHER FISCAL INCENTIVES WILL BE DETERMINED BY THE INTERSECRETARIAL AUTOMOTIVE COMMISSION.

11. THE AUTOMOTIVE DECREE WILL HAVE A DELETERIOUS EFFECT
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ON THE FOREIGN INVESTMENT CLIMATE, ESPECIALLY AS IT IS
THE FIRST OF SEVERAL PLANNED GOM MEASURES ON
INDUSTRIAL POLICY, THE OTHERS TO COVER TEXTILES, STEEL,
PETROCHEMICALS, CAPITAL GOODS, ETC. WHILE WELCOMING
FOREIGN INVESTMENT WHICH PLAYS BY THE RULES OF THE
GAME, GOM IS MAKING RULES THAT ARE CONSIDERABLE CON-
TRAINTS ON OWNERSHIP AND OPERATION OF FOREIGN INVEST-
MENT. THE DISCRIMINATION INTRODUCED IN ARTICLES 4 AND
17 IS OF GREAT CONCERN, ALTHOUGH INTERPRETATION MAY
SOFTEN THE IMPACT. IMMEDIATE REACTION AMONG U. S.
AUTOMOTIVE SUBSIDIARIES RANGE FROM DOOM AND GLOOM AT
FORD TO CONCERN AT GM; CHRYSLER FEELS THAT LAW WAS
DESIGNED TO BOLSTER PARASTATAL DINA AND VAM (WHICH IS
ONLY PARTLY-OWNED BY AMERICAN MOTORS). EMBASSY WILL
CONTINUE TO FOLLOW DEVELOPMENTS. COPIES OF LAW
BEING POUCHED SEPARATELY TO STATE EB/CSB/BP AND ARA/MEX
AND COMMERCE OIM/MEX AND IEP. THOMPSON

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